

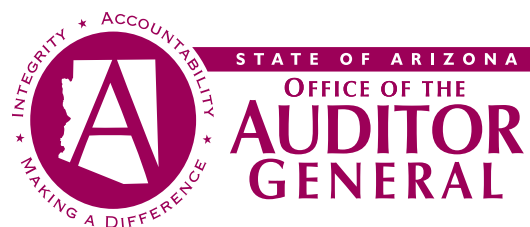
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Arlington Elementary School District No. 47

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 9, 2007

Governing Board
Arlington Elementary School District No. 47
9410 S. 355th Ave.
Arlington, AZ 85322

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Heinfeld, Meech & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Arlington Elementary School District No. 47 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$2.3 million it received in fiscal year 2006 to provide this education.

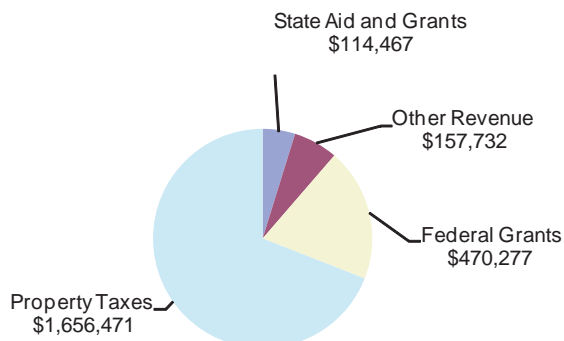
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the Uniform System of Financial Records (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Maricopa
Number of Schools: 1

Number of Students: 226
Grade Levels: K-8



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2006 and Arlington Elementary School District Report on Audit of Financial Statements and Report on Internal Control and Compliance for the Fiscal Year Ended June 30, 2006.*

The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate financial information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records and annual financial report (AFR) are accurate and complete, and that transactions are properly authorized and

adequately supported. However, the District did not fully accomplish this objective. For example, the District improperly deposited grant revenues into an electronic payments bank account, incorrectly recorded E-rate and

Intergovernmental Agreements (IGA) revenues in the Gifts and Donations Fund, miscoded E-rate revenue, and miscoded principal and interest payments on leases. Also, the District did not ensure journal entries were reviewed and approved prior to posting them in its accounting records. In addition, the District did not always record revenue and expenditures in the proper fiscal year.

Further, the District's budgeted expenditures on its AFR did not always agree to its revised expenditure budget, and actual revenues reported on its AFR did not always agree to its accounting records. Finally, the District reported inappropriate food service expenditures for the Maintenance and Operations (M&O) Fund on the AFR.

The District did not always record transactions properly in its accounting records or ensure that all journal entries were approved.

Recommendations

To ensure the accuracy of its accounting records, the District should:

- Deposit E-rate and IGA revenues with the county treasurer in a federal grant fund (300-399) and an IGA fund (955), respectively.
- Classify E-rate revenue as Revenue on Behalf of the District (revenue object code 4900).
- Code lease principal payments to object code 6832—Redemption of Principal, and lease interest payments to object code 6850—Other Interest.
- Require a supervisor to review and approve journal entries before they are posted to the accounting records. Retain documentation for all journal entries, including evidence of authorization.
- During the 60-days following year-end, maintain a separate accounting record of each fund simultaneously for the prior and current fiscal years, and record revenues and expenditures of the prior fiscal year in the records of the prior fiscal

USFR §III provides guidance for classifying financial transactions.

year, and revenues and expenditures of the current fiscal year in the records of the new fiscal year.

- Ensure the accounting records have been updated to reflect the final, adopted budgeted amounts, and all actual revenues and expenditures before preparing the AFR. A second employee should verify that the amounts reported on the AFR agree with the District's accounting records before submitting it to ADE.

The District should strengthen controls over competitive purchasing

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors to help ensure that districts receive the best possible value for the public monies they spend. However, the District did not follow competitive purchasing requirements and the USFR guidelines. Specifically, the District did not always obtain at least three oral price quotations for purchases requiring them. Also, the District did not always include all required items in invitation for bid (IFB) packets, and did not always include all applicable evaluation factors for request for proposals (RFP). In addition, the District did not always retain documentation supporting that bids and proposals were stamped with the time and date of receipt. Further, the District did not always provide adequate notice when issuing IFBs or document its reasons for soliciting RFPs rather than IFBs. Finally, the District awarded a contract to the only bidder without determining in writing that the price submitted was fair and reasonable.

The District did not follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should perform the following:

- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Include all information required by the School District Procurement Rules in its IFBs and RFPs.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

- Provide adequate notice of the IFB if the District's prospective bidders list contains four or fewer vendors.
- Before issuing an RFP, obtain a written determination from the Governing Board stating the reasons that issuing an IFB is either not practicable or not advantageous to the District.
- Maintain documentation of all bids or proposals received, including time- and date-stamped envelopes or packaging.
- Award a contract to the only responsive bidder only after determining that the price submitted is fair and reasonable, and that either other prospective bidders had reasonable opportunity to respond, or there is not adequate time for resolicitation.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that the districts receive the appropriate amount of state aid and local property taxes. However, the District did not retain all computerized attendance records and student entry forms; therefore, the District's auditors could not verify that memberships and absences reported to ADE were accurate and that the District received the proper amount of funding. Also, the date on withdrawal forms did not always agree with the date recorded in the computerized attendance records that were retained. In addition, the District did not accurately report partial-day absences. Finally, students withdrawn for having ten consecutive unexcused absences were not always counted in membership through the last day of attendance.

The District could not validate the amount of funding it received as it did not retain its student attendance records.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Retain for the required number of years, accurately completed student records and supporting documentation in accordance with the *Records Retention and*

Disposition for Arizona School Districts manual published by the Arizona State Library, Archives and Public Records' Records Management Division.

- Ensure that membership and absences reported to ADE are supported by district records, such as attendance registers, membership and absence reports, and entry and withdrawal forms.
- Record and report membership and absences in accordance with ADE's *Instructions for Required Reports*.
- Require a second employee to verify that the entry and withdrawal dates recorded on the forms agree with the dates in the District's computerized attendance records and teachers' attendance registers.
- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than 3/4 of the day. If instructional time for the year is 692 hours or more, students not in attendance at least one-half of the day should be counted as being absent.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half days, as follows:
 - Attendance of at least 3/4 of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least 1/2, but less than 3/4, of the instructional time scheduled for the day should be counted as a half-day of attendance.
- Withdraw students with ten consecutive unexcused absences, and ensure that these students are only counted in membership through the last day of attendance.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

The District's controls over cash should be strengthened

Because of the relatively high risk associated with transactions involving cash, school districts should establish and maintain effective internal controls to safeguard cash. However, the District did not have strong controls over its cash and bank accounts. Specifically, the District did not always retain documentation to support M&O Fund revolving bank account expenditures. In addition, the District did not retain supporting documentation for all student activities or gifts and donations cash receipts. Further, the District did not

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

maintain student activities records and did not have sufficient backup procedures to recover them.

Recommendations

To strengthen controls over district and student monies, the District should:

- Retain documentation to support expenditures from the M&O Fund revolving bank account, including check requests and vendor invoices.
- Prepare in duplicate prenumbered and numerically controlled cash receipt forms for all monies received.
- Prepare activity or cash collection reports for student activities cash receipts.
- Retain appropriate documentation for all student activities disbursements, including purchase requisitions, purchase orders, vendor invoices, minutes, and bank statements.
- Develop contingency planning controls, including backup, environmental, and disaster recovery, to help safeguard against the accidental loss or destruction of records, and to prevent interruption of information technology operations.

A sample student activities cash collection report is on USFR page X-H-21.

The District should improve controls over expenditure processing

The District spends public monies to purchase goods and services. It is essential that the District follows procedures designed to help ensure that its expenditures are adequately supported and accurately paid. However, the District did not have adequate controls over expenditure processing. Specifically, the District's Governing Board did not establish written policies governing the use of credit cards. In addition, the District did not always prepare purchase orders prior to ordering goods and services, and did not always document the dates that goods or services were received.

The District did not have formal policies for credit card use.

Recommendations

To help strengthen controls over expenditure processing, the District should establish formal written credit card policies that require authorized employees to submit credit card receipts and document the specific district purpose for each expenditure. In

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

addition, the District should prepare and approve purchase orders prior to ordering goods and services, and retain documentation to support all expenditures. Further, the District should prepare receiving reports for all goods and services received. The date of receipt, quantity received, and recipient's signature should be noted on the receiving report.